

REPORT TO THE LEGISLATURE
OWNER CONTROLLED INSURANCE PROGRAM
STATUS REPORT

APRIL 2007

Prepared by the California Department of Transportation
Division of Construction
Office of Risk Management

Report to the Legislature

Owner Controlled Insurance Program Status Report April 2007

Purpose

This is the first annual report prepared in accordance with the Budget Act (BA) of 2006-07 Senate Budget and Fiscal Review; Assembly Budget, which states:

1. Owner Controlled Insurance Program (OCIP). By April 1 of 2007, 2008 and 2009, respectively, the California Department of Transportation (Department) shall report to the Joint Legislative Budget Committee and the policy committees on transportation on the following:
 - The type and value of projects included in the pilot.
 - The amount that the Department would have paid contractors for comparable insurance coverage in the absence of an OCIP, as identified in documentation submitted with contractors' bid statements.
 - The amount the Department paid in insurance premiums, deductibles, program administration, and any other OCIP-related costs incurred during the pilot.
 - The estimated net cost or benefit of implementing the pilot, as identified, by comparing contractors' estimates for insurance costs in the absence of an OCIP to the amount the Department paid in insurance-related costs under the OCIP.
 - An assessment of the projects that were best-suited for inclusion in an OCIP and the projects that were least well-suited, in terms of cost-effectiveness.

Type and Value of Projects Included in the Pilot

In accordance with the 06/07 budget bill language limiting the size of the pilot program, this OCIP program has been restricted to projects totaling no more than \$750 million in construction value (hard costs). Initially ten projects were selected; however, a recent review of these projects indicated the value for some projects materially increased. Therefore, the number of projects has been reduced to eight to stay within the dollar value limitation. The eight projects are identified in the attached document entitled "List of Projects."

These projects were selected based on several criteria:

- A range of project sizes (from \$36 million to \$193 million).
- Controlled geographical dispersion in the Department's Districts.
- A variety of construction types including roadways, bridges, and a building.
- Total construction value of less than \$750 million.

Identification of Contractor Insurance Costs in Absence of an OCIP

None of the projects have yet been put out to bid as of the date of this report. Therefore, there is no documentation or other means to identify the cost of contractor insurance at this time. However, the Department and its consultants are developing protocols for gathering contractor cost information. These protocols will be in place before any of the construction projects are awarded and the necessary provisions will be incorporated into the construction contract documents. Sessions to explain the process will be held with contractors and subcontractors prior to commencement of work. The outcome will be the ability to identify contractor's cost of insurance in the absence of an OCIP and also to identify the actual deductions in this pilot program, which may not be exactly the same as contractor cost.

The common process for identifying contractor insurance costs is to require contractors enrolling in an OCIP to submit copies of insurance policy declaration pages and rating sheets and to obtain information about the contractors' experience modifier from the State. This information enables the OCIP administrator to calculate the premium attributable to the project precisely and to estimate costs within deductibles with high accuracy.

The process for performing this function is part of a set of performance standards being developed by the Department and its risk management consultants.

OCIP-Related Costs

During the past year the following activities have taken place on this program:

- A risk management OCIP consultant was selected (contract value maximum \$1,745,985).
- An insurance broker was selected (contract value \$1,124,611).

The consultant's primary role is to:

- Assist and advise the Department on establishment and management of an OCIP.
- Assist in the development of best practices and performance standards for the Department and its service providers (insurance brokers, program administrators, etc.).
- Document the processes developed in the form of manuals and materials for future management of the OCIP.

The insurance broker's role is to:

- Design (cooperatively with the Department and its consultants) and market the OCIP coverages.
- Provide administration services (contractor enrollment, policy and certificate issuance, payroll reporting, claims reporting, etc.).

Additional OCIP-related costs will include insurance premiums and fees, and losses within deductibles. A risk management information system, which may be another additional cost, will capture all cost information as described below.

Estimated Net Cost or Benefit

The collected data from the contractors and the costs of the OCIP will be entered into a risk management information system that is being developed by the Department and its consultants. Depending on the methods ultimately chosen for the program, the contractor cost data will come from negotiated change orders (meaning actual cost reductions) or from calculations of cost reductions based on contractor-provided information. The contractor costs removed from the program will be compared with the expenditures and estimated losses paid or incurred by the Department. This will allow the design of reports that will keep a running total (with some lag due to reporting periods) of costs and savings from the program.

Assessment of Individual Projects in the OCIP in Terms of Cost-Effectiveness

The risk management information system described above, along with experience and analysis on the part of the Department and its consultants and broker will enable an assessment of the suitability of individual projects for the OCIP. This assessment will identify characteristics of each project that either lend the type of project to the OCIP technique, that create challenges under an OCIP, or that suggest that other risk financing techniques may be more efficient. Because development of this information and analysis takes time, there may not be complete information for the next annual report in this area, but the information necessary for the analysis will be accumulating for subsequent reports.

LIST OF PROJECTS
(As of 10/22/06 Project Delivery Schedule)

District Expenditure Authorization (Dist - EA)	Co - Rte - PM	Project Description	Capital Bridge Construction Estimate	Capital District Construction Estimate	Total Estimated Ready To List (RTL) Capital	Type of Prime Contractor (i.e. Highway, Bridge, Tunnel, etc.)	Estimated Ready to List (RTL) Date (MS460)	Estimated Const. Start Date	Contract Construct. Acceptance (CCA) Date
08-4393U	SBD-015-169.9/182.1	CONSTRUCT NB TRUCK DESCENDING LANE AND PAVEMENT REHAB (SEG 2)	\$7,100,000	\$77,266,000	\$84,366,000	Highway	4/17/2007	9/17/2007	9/7/2009
08-47230	RIV-010-R000.0/R008.2	PVMT REHAB, WIDEN BR., PAVE MEDIAN & CONCRETE MEDIAN BARRIER	\$2,775,000	\$34,198,000	\$36,973,000	Highway & Bridge	2/5/2008	7/5/2008	6/7/2010
07-1668U	LA-010-018.3/032.8	REHAB ROADWAYS AND RAMP	\$4,742,000	\$181,976,000	\$186,718,000	Highway	11/6/2007	4/1/2008	10/6/2010
08-47221	SBD-015-0.0/3.8	PAVEMENT REHABILITATION	\$7,172,000	\$39,844,000	\$47,016,000	Highway	11/1/2007	4/1/2008	12/2/2009
04-12965	SON-101-013.9/015.3	WIDEN FROM 4 TO 6 LANES FOR HOV & RECONSTRUCT I/C	\$14,000,000	\$22,100,000	\$36,100,000	Highway	9/1/2007	2/1/2008	11/1/2010
04-25375	ALA-680-R 0.0/R 19.3	WIDEN FREEWAY, CONSTRUCT AUXILIARY & HOT LANES, & INSTALL RAMP METERS	\$13,300,000	\$69,600,000	\$82,900,000	Highway	8/15/2007	1/1/2008	7/1/2010
01-26200	MEN-101-T043.5/T051.3	CONSTRUCT 4-LANE FREEWAY	\$123,000,000	\$70,000,000	\$193,000,000	Bridge	8/1/2008	1/1/2009	5/1/2012
04-01400	ALA-000-O 000.0/O 000.0	CONSTRUCTION OF BUILDINGS & ROADS/ RENNOVATION OF EXISTING KEY SYSTEM	\$43,300,000	\$21,600,000	\$64,900,000	Highway	10/1/2007	3/1/2008	7/1/2009
TOTAL RTL COST					\$731,973,000				